SUMMARY OF CA TARGETED AREA BENEFITS & OTHER CA CREDIT-RELATED ISSUES

I. California Economic Development Areas (EDAs)

General Overview

California offers five targeted area programs. These programs include the following: 1) Enterprise Zones ("EZ"); 2) Los Angeles Revitalization Zones ("LARZ"); 3) Targeted Tax Areas ("TTA"); 4) Manufacturing Enhancement Areas ("MEA"); and Local Area Military Base Recovery Areas ("LAMBRA"). Following is a summary of these programs.

Enterprise Zones

There are approximately 34 enterprise zones in California (including Program Areas that were changed to EZs beginning January 1, 1997). Benefits available in EZs include the following:

- *Sales/Use Tax Credit:* Credit against income and bank and corporation tax equal to sales/use tax paid on up to $20,000,000 ($1,000,000 for partnerships) of qualified manufacturing and pollution control property. For tax years beginning on or after 1/1/98, data processing equipment, faxes, telephone systems, and motion picture-related equipment all qualify. No requirement that property must be capitalized. May be claimed in addition to any MIC available on the property.

- *Hiring Credit:* Credit against income and bank and corporation tax up to $27,000 for each qualified employee hired (**not** net new jobs) claimed over a 5 year period (largest benefit is claimed first year, up to $9,000). Credit is based on a percentage of wages, up to 150% of the CA minimum wage. The credit is 50% of wages first year of employment, 40% in the second, 30% in the third, 20% in the fourth, and 10% in the fifth.

  Prior to 1/1/97 qualified employees included only employees that were in some way disadvantaged (e.g., AFDC, ex-felon, previously unemployed, disabled). Beginning in 1997, a new category of qualified employees was added and no longer did employees have to be disadvantaged to qualify for the credit. Qualified employees now include Targeted Employment Area ("TEA") residents as well. Even if employee is making $100,000 a year, as long as he/she is a TEA resident, the employee will be qualified for the credit. Note that even though the effective date of the TEA was 1/1/97, most EZ coordinators will only allow certifications of TEA residents back to the designation date of the TEA (e.g., San Jose's TEA designation date was during 2/97, San Francisco's designation date was 12/98). All types of employees qualify, including part-time and seasonal employees.

- *NOL Carryforward:* Generally, CA only allows a 50% NOL carryforward. However, businesses located in EZs may carryforward 100% of their NOLs related to EZ income.

- _Business Expense Deduction:_ Property that should otherwise be capitalized may be expensed. Generally, only available on $40,000 worth of property.

- _Lender's Net Interest Deduction:_ Basically, lenders are allowed to deduct all interest income earned from loans made to businesses in enterprise zones.

Los Angeles Revitalization Zones (expired 1998)

Generally, the same benefits are available as for EZs with the following modifications:

- Qualified property for purposes of the sales/use tax credit is expanded, including most depreciable tangible personal property, not just that for manufacturing and pollution control.
- A qualified employee for purposes of the hiring credit includes not only disadvantaged employees, but also residents of the LARZ. There are no references to TEAs with respect to the LARZ.
- May not claim the sales/use tax credit along with the MIC.

Targeted Tax Area

Generally, the same benefits are available as for EZs with the following modifications:

- Only available in parts of Tulare County.
- Qualified property for purposes of the sales/use tax credit is generally the same as that included in the 1998 expanded EZ sales/use tax credit (i.e., includes data processing, faxes, etc.)
- Qualified employees include, in addition to disadvantaged employees, residents of the TTA. There are no references to TEAs with respect to the TTA.

Local Area Military Base Recovery Areas

Generally, the same benefits are available as for EZs with the following modifications:

- Only available in any of five military base redevelopment areas, which include the following: Mare Island Naval Shipyard; Alameda Naval Air Station; Castle Air Force Base; George Air Force Base; Tustin Marine Corps Air Station.
- Requires a net increase of one or more employees to qualify for the LAMBRA benefits.

Manufacturing Enhancement Areas

Generally, the same benefits are available as for EZs with the following modifications:

- No more than two MEAs will be designated.
- Credit benefits are available beginning January 1, 1998.
- Benefits are only available to manufacturers.
- Only benefit available to companies in MEAs is a hiring credit, which is similar to the EZ Hiring Credit, except classes of disadvantaged employees qualifying for the credit are much more limited.

Issues Related to Targeted Areas

Analysis of the Ups and Downs with California EDAs

Are The EDAs Really Working?

Utilization Rates

- *Hiring Credits*: According to the Department of Commerce only 11,000 employees out of the entire state of California have been vouchered for the EZ Hiring Credit program since its inception. This seems like a very small amount, considering, for example, there are more than 800,000 employees in the city of San Jose alone.

- *Sales/Use Tax Credits*: According to the Franchise Tax Board, many companies that are located in enterprise zones and are claiming the Manufacturer's Investment Credit are not claiming the EZ Sales/Use Tax Credit for the same property.

The Good

- *Hiring Credit*: By far, one of the most lucrative hiring credits in the country at about $27,000 per employee ($9,000 in the first year of employment). Many states offer hiring credits at much lower amounts, i.e., between $500 and $2,000 per qualified employee. Moreover, many state hiring credits require an increase in net new jobs. California's targeted areas do not require a net increase in jobs, rather they just require a hiring of qualified employees. In addition, the credit applies to full-time, part-time, and seasonal employees. Many states allow a hiring credit for only full-time employees.

  The credit is also available to most industries, whereas many state hiring credits are limited to a select few industries, generally manufacturing and high technology.

- *Sales/Use Tax Credit*: By far, one of the most lucrative investment tax credits in the country at a rate of between 7% and 8.75% (about 15% for manufacturers in EZs that are doubling up with the MIC). Many state investment credits are limited to between 3% and 5% of qualified property.

  Beginning 1998, the credit is also available to many industries, not just manufacturing (i.e., qualified property now includes data processing equipment, faxes, telephones, and motion picture equipment). Investment credits for many states are limited to manufacturers.

The Bad

- *Retroactive Application of EZ Income Apportionment Factor:* The 1998 change of the EZ apportionment factor from 3-factor (property, payroll, sales) to two factor is not applied retroactively. The 3-factor apportionment is a significant impediment to the ability of CA manufacturers selling out of state to claim the EZ benefits, yet this activity should be encouraged to help CA remain competitive. The CA income apportionment percentage related to companies selling outside CA may be diluted significantly, since these companies generally don't have a significant sales factor (unless there's throwback to CA) but still must divide the apportionment factor by three instead of two.

- *Program Area Retroactivity Precluded by Certification Requirement:* The inability to retroactively claim EZ credits prior to 1997 for areas previously designated Program Areas is a disadvantage. Local enterprise zone coordinators require that a company must have been certified prior to 1997 in order to go back prior to this date.

- *Issues Concerning Obtaining Substantiating Documentation for Hiring Credit:* EZ Coordinators generally will not accept anything internally generated by the company as proof of an employee's qualification. This makes it very difficult to certify many employees.

The Ugly

- *Retroactive Application of TEAs/No Consistency Among EZ Coordinators:* Although the legislation seems to suggest that all TEAs were in essence effective beginning 1997, most EZ coordinators are not going back retroactively to this date to certify TEA resident employees. Instead they are only going back to the date the TEA was actually designated by the locality. As such, there is inequitable treatment between taxpayers with respect to EZ TEA-related benefits, since TEAs were designated at different dates, thereby limiting the ability to go back retroactively. For example, San Jose taxpayers will be able to go back to February 1997 to obtain TEA-related benefits, since San Jose's TEA was designated at that time. However, San Francisco taxpayers will not be able to go back and claim the TEA-related benefits, since San Francisco's TEA was not designated until December of 1998, almost 2 years later. Therefore, the San Jose taxpayers are receiving two years additional credit opportunities not available to San Francisco taxpayers. If these were local opportunities, then perhaps the inequitable treatment would be warranted. However, this is a state program funded with state money and should be applied equitably across the board.

- *No Organized Appeal System Related to EZ issues:* Because of the autonomy given to the EZ coordinators of each city, there is really no appeal system with respect to obtaining certification of qualified employees for the EZ hiring credit. The local coordinators may choose, based on their own discretion, whether to certify an employee. For example, even though there is nothing in the statute creating a limitation on how many TEA-related certifications may be given, some EZ coordinators will certify only a certain percentage of TEA resident employees. Since no one has authority over these local coordinators, taxpayers have no way to appeal denied certifications based on these arbitrary limitations.

Significant Ambiguity/Complexity = Lots of Litigation

- *Expensed Property Qualification for EZ Sales/Use Tax Credit:* There is no reference in the EZ statute that specifies what type of property qualifies for the EZ sales/use tax credit. The statute only specifies that the property must generally be used for manufacturing (while certain other activities may qualify, this is the main qualifying activity). The MIC statute and regulations, on the other hand, explicitly state that property must be capitalized tangible depreciable property. As such, any manufacturing property, whether it is capitalized or expensed, should qualify for an EZ credit. However, the FTB's position is that there are enough "inferences" in the EZ legislation that warrant only including capitalized property. "Inferences" are not law and should not be controlling.

    - *Double Dip Issues:* It is interesting that the legislature would allow a company to double dip between the MIC and EZ Sales/Use Tax Credit but not between the MIC and the sales/use tax credit available in the LARZ or in the Targeted Tax Area.

    - *LARZ Expiration:* When did the LARZ really expire? Most of the legislation says 1998, but the LARZ credit forms provided by the state say 1997.

Manufacturer's Investment Credit

There's Trouble in MIC Land

Litigation's Coming – FTB is Targeting MIC for Audit

Some ideas to make it easier on taxpayers….

- *Restriction on Sampling:* Oftentimes it is an administrative burden for companies to locate thousands of invoices in order to substantiate the MIC claimed. The FTB does not currently utilize statistical sampling as a standard audit methodology for verifying the MIC claimed. The SBE uses sampling and this approach would significantly reduce the administrative costs to the FTB and to taxpayers in substantiating the MIC claimed.

- *Sales/Use Tax Paid requirement:* Often taxpayers claiming the MIC have already undergone a SBE audit before being audited by the FTB. The agencies should work together in that the FTB should accept a "clean bill of health" given by the SBE and not require taxpayers to undergo another substantiation process in order to claim the MIC.

Big $ Cases – FTB thinks high non-compliance rate

- *Lack of Substantiation*: Some companies have claimed the MIC but have not kept adequate records to substantiate the credit upon audit.

- *Aggressive Credit Claims*: Some companies have not done a thorough review of their property to ensure that all property included in the MIC calculation is qualified. Some companies simply multiply the MIC percentage by all capitalized property.

Sore spots

- *Qualified Taxpayer*: Should the number of SIC/NAISC codes that qualify for the credit be expanded?

- *Section 1245 property – easy to identify?* – It is often difficult to identify 1245 property in the manufacturing setting. Sometimes assets in a manufacturing environment seem to be 1245 property but perhaps are really leasehold improvements that are more properly classified as 1250. Will FTB accept cost segregation studies? Is it too burdensome to require taxpayers to go through such studies?

- *Documentation burden with respect to self constructed assets & contractors*: Seems that FTB is taking the position that MIC should not be calculated on the markup taken by contractors. They are putting the burden on the taxpayer to determine from the contractors what the profit margin is, or requiring a formula. This is difficult and unnecessary. If the state is concerned about abuse or excessive MIC in this area, it should consider a reasonable method for hair-cutting the benefit on constructed assets. Perhaps it should be similar to the R&D credit QRE limit of 65% for contract work.

- *Credits Against Combined Income:* The FTB's position that credits are available only to offset the income of the entity within the unitary group which generated the credit is very restrictive.

- *Currently only 8 years for large businesses, 10 years for small business*. Should be longer – perhaps increase to 15 years.

- *Expand Sunset Date on the MIC:* Will credit be extended? Currently set to expire January 1, 2001 if fewer than 100,000 new jobs created. What is the status?

Other Issues

- *Sales/Use Tax Refund Election in Lieu of MIC:* This offers limited benefit to most taxpayers because a company still must have had an income tax liability in order to elect the sales/use tax refund. This should really be a sales/use tax benefit for companies that do not have income tax liabilities. Many other states offer manufacturing sales/use tax exemptions; however, CA does not (except for new businesses). Allowing a sales/use tax refund on manufacturing property, irrespective of income tax paid, would help CA remain competitive with other states that have manufacturing sales/use tax exemptions.

- *Leases – no credit for sales tax paid on lease stream* – This rule seems harsh. Taxpayers who enter into leases whereby they pay the sales tax up front simply in order to tax the MIC may end up penalizing themselves if they need to break the lease early for other business purposes. Perhaps FTB could consider a change or allow a new election to allow taxpayers to claim the MIC on leases where the sales tax is paid as part of the lease stream. Taxpayers would claim the MIC as payments are made. If holding period was not met, taxpayer would still be subject to recapture.

- *Leases – clarify sale-leaseback rules on real property* – The Regulations as currently written do not address this particular issue. While FTB has agreed in informal discussions that its intent is to allow MIC on sale-leaseback of qualifying special purpose buildings, the issue has not been resolved in the Regulations.

Research Credit

R&D Means Ridiculous & Difficult

- *Limitations Abound*

- *41(g) Limitation – Rules for Pass-Through Entities*

- *Qualified Research Is Difficult to Define*

- *AIRC May Not Be Working:* Although the alternative R&D calculation was supposed to provide large, mature companies for which sales are increasing faster than QRE with a research credit benefit, it may not be as effective as hoped. Some think that what CA really needs is a research credit calculation that does not follow federal. For Example, an apportioned calculation would be much better than an incremental calculation. This calculation would compare CA QRE to total QRE everywhere. As long as a company continued to conduct a large portion of its QRE in CA, the company would still receive a research credit (See Indiana, NC, Iowa R&D Credit Calculations). This would help CA remain the high tech powerhouse that it is and would encourage even large, existing companies to continue to spend money on research.

General Issues Related to All Credits

- *Better Utilization of Credits:* For example, what do you do if your company is a cooperative that qualifies for the EZ benefits but cannot utilize them due to its tax structure? Is there any equitable relief or any way to utilize the tax credits generated? NOTE: Agricultural is a significant part of the California economy. Many agricultural businesses are structured as cooperatives. As such, CA should find a way of allowing these companies to utilize CA credits.

- *Refundable Credits for New Businesses:* Even though there are significant carryforwards available for the credits, is there any chance they may become refundable in the future? Possibly just for small businesses, especially high-tech ones? NY offers a refundable ITC to new businesses, shouldn't CA?

Thanks to Monka Miles and Shammen Dugger of the PricewaterhouseCoopers State Tax Consulting practice for providing their thoughts on California credit issues.

I. THE NUTS AND BOLTS OF CALIFORNIA'S MANUFACTURERS' INVESTMENT CREDIT (MIC)

The Manufacturers' Investment Credit, or ''MIC'', is a *statewide* credit that may be used to reduce a taxpayer's income or franchise tax. The MIC was enacted in 1993 by the California legislature, but it was not effective until taxable or income years beginning on or after January 1, 1994. In an unusual move, the California legislature delayed the credit by requiring that first and second year costs and resulting credits were to be claimed on the 1995 returns. The MIC began life as a sales and use tax exemption, but in a compromise, the legislature passed the MIC, an income tax credit. Thus, the MIC is viewed by its followers as a "quid pro quo" for California sales or use tax payment.

The MIC continues to be the subject of bills before the legislature. It has been expanded on several occasions and it's likely it will be in the future. The credit was originally to sunset on January 1, 1994, but only if 100,000 new manufacturing sector jobs had not been created in California in the period January 1, 1994, through January 1, 2001. The legislature recently changed the latter date to January 1, 2003. It's likely the credit will not sunset because the current job growth in California in the manufacturing sector will easily outpace the goal in the sunset provision. After that, there is currently no sunset provision.

The MIC is 6% of ''qualified costs'' paid or incurred on or after January 1, 1994, for acquiring, constructing or reconstructing ''qualified property.'' It is available to ''qualified taxpayers'' engaged in manufacturing-type activities. To be eligible for the credit, the property must be placed in service in California on or after January 1, 1994. The credit is claimed for the taxable or income year in which the qualified property is placed in service in California.

Qualified Taxpayer

A qualified taxpayer may be an individual, partnership, corporation, S Corporation or limited liability company (LLC). A qualified taxpayer must be engaged in at least one line of business that is classified as an operating establishment under Division D, Manufacturing (SIC Codes 2011 through 3999 of the Standard Industrial Classification (SIC) Manual, 1987 edition.) On or after 1/1/98, SIC Codes 7371 through 7373 (relating to developers or manufacturers of prepackaged software or custom software) are included in the definition of qualified taxpayer.

Taxpayers operating in an Enterprise Zone may claim the enterprise zone sales or use tax credit and the MIC for the same property. Taxpayers claiming the enterprise zone business expense deduction must reduce MIC qualified costs by the amount of the deduction before computing the MIC. However, taxpayers that operated in the former LARZ may *not* claim both the LARZ sales or use tax credit and the MIC for the same property. Taxpayers claiming the LARZ business expense deduction must reduce MIC qualified costs by the amount of the deduction before computing the MIC.

Qualified Property

Generally, qualified property is new or used tangible personal property defined in Internal Revenue Code section 1245(a) and used primarily (50% or more of the time) in a manufacturing or other related qualified activity.

Qualified activities include:

- Manufacturing, processing, refining, fabricating or recycling; or
- Research and development; or
- Maintaining, repairing, testing or measuring other qualified property; or
- Pollution control (meeting or exceeding established state or local standards).

Qualified property also includes certain computers and computer peripheral equipment used in specified activities by SIC Code 7371 through 7373 taxpayers (on or after 1/1/98) and certain special purpose buildings and foundations used by certain taxpayers, generally computer manufacturers, biotechnology, biopharmaceutical and aerospace firms. R&D property can qualify for the MIC provided the property is used as part of the manufacturing process in that the R & D supports the manufacturing process. However, costs expensed under IRC Section 174 are not qualified costs for the MIC and pure R & D companies, which are not classified under SIC manufacturing codes, are generally not qualified taxpayers for the MIC.

Qualified Costs?

The MIC is six percent (6%) of all qualified costs. To qualify for the credit, costs must meet all of the following criteria:

- Paid or incurred on or after January 1, 1994, for the acquisition, construction or reconstruction of qualified property;
- Amounts *upon which* California sales or use tax were paid (except for capitalized labor costs); and
- Amounts that are chargeable to the qualified taxpayer's capital account (cost basis for depreciation), except for certain operating or ‘‘true’’ leases.

Qualified costs may also include capitalized labor costs paid or incurred that are directly allocable to the construction or modification of qualified property (direct costs as defined in IRC section 263A). Unlike some other credits, there is no basis reduction for depreciation purposes when a taxpayer claims the MIC for a given item of qualified property.

Claiming the MIC & Limitations

The MIC is claimed on FTB 3535, *Manufacturers' Investment Credit*, for the year in which the qualified property is placed in service in California. This form is included in the California Package X. Any credit earned during the 1994 taxable or income year MUST be claimed on the 1995 form FTB 3535. Amended returns can be filed to claim the MIC, as long as the applicable statute of limitations is open (generally four years from the due date of the return or one year from the date of the overpayment, whichever period expires later).

There is no yearly dollar limitation on the amount of MIC the taxpayer may accrue during any year. Any MIC exceeding the tax liability for the current year may be carried over to future years. The credit is not allowed for any property for which a California sales or use tax exemption or refund has been claimed. The credit cannot reduce the minimum franchise tax (corporations, limited liability companies, limited partnerships, limited liability partnerships and S corporations), built-in gains tax (S corporations) or the excess net passive income tax (S Corporations).

The MIC is not a refundable credit. Any MIC that is not used to offset the qualified taxpayer's income or franchise tax must be carried over to future years. The credit may not reduce the AMT. However, the credit may reduce the regular tax below the tentative minimum tax (TMT). Generally, any part of the credit exceeding the tax liability for the current taxable or income year may be carried over for a maximum of eight years. Some small businesses qualify for a ten-year carryover.

The MIC and Leases

Leases or lease finance arrangements can qualify for the MIC, but only if the sales or the lessor pays use tax when the property is acquired. In this situation, the lessee may take the entire credit for the year in which the lessee placed the qualified property in service for costs upon which the lessor paid California sales or use tax if certain requirements are met. The lessor MUST acquire the qualified property on or after January 1, 1994, and the lease with the qualified taxpayer must have also been commenced on or after January 1, 1994.

Under an operating or ‘‘true’’ lease, the cost of the property does not have to be chargeable to the qualified taxpayer's capital account. However, under a finance or capital lease, the property must be chargeable to the qualified taxpayer's capital account – i.e.; capitalized. The credit is computed using the lessor’s original cost of the qualified property upon which California sales or use tax was paid. Within 45 days after the close of the lessee’s taxable or income year for which the MIC is allowable, the lessor is required to provide a statement to the lessee specifying the amount of the lessor’s cost upon which sales or use tax has been paid and the amount of qualified costs eligible for the credit. However, this requirement is only to insure that the lessor provides the information in a timely manner. No penalty or disallowance of the credit should result if this information is provided at a later date, as long as the information is available so that the lessee can calculate the qualified costs for the credit. Obviously, the Franchise Tax Board may require this information at audit.

The MIC is passed through to these taxpayers in the same manner as other credits. In the case of S corporations, the corporation may claim one third of the credit against the 1.5 percent entity-level tax and then pass through 100% of the credit to the S corporation shareholders. In the case of partnerships and LLCs taxed as partnerships, the credit is earned at the entity level and passed through to partners or members.

The MIC (including any carryover) is allowed only to the qualified taxpayer that earns the credit. For example, a subsidiary corporation that places qualified property in service and generates a MIC may not allocate the credit to the parent corporation. Further, a corporation that is a member of a unitary group may not allocate or otherwise transfer the credit to any other member of the unitary group.

MIC Regulations

The MIC regulations are in the California Code of Regulations, Title 18, sections 17053.49-0 through 17053.49-11 (Personal Income Tax) and 23649-0 through 23649-11 (Bank and Corporation Tax). The Franchise Tax Board adopted these extensive and comprehensive regulations in 1996. They include many useful examples. However, keep in mind that the statutes, RTC sections 17053.49 and 23649, take precedent over the regulations. Where there appears to be a conflict between the statutes and regulations, the statutes will control.

III. NUTS AND BOLTS OF CALIFORNIA'S R&D CREDIT

Qualified Research Expenses Credit

California's credit for *increasing* qualified research expenses was first enacted in 1987 and has been tweaked and modified along the way (R&TC Secs. 17052.12 and 23609). California generally conforms to the federal research credit under IRC Sec. 41, with, among others, the following modifications:

- The research must be conducted in California; and

- The percentage for the qualified research credit is 12 percent ((as of 1/1/99) (SB 705)), rather than 20 percent for the federal credit;

Qualified research expenses include in-house and contract research expenses. This generally means wages paid or incurred to an employee for qualified services performed by the employee, amounts paid or incurred for supplies used in the conduct of the qualified research, and amounts paid or incurred for to another person for the right to use computers in the conduct of qualified research.

For years beginning on or after 1/1/98, California generally conforms to the federal election for an *alternative incremental method* of computing the credit except that the percentages are modified. For federal purposes, this election has been available since 6/30/96. This helps those taxpayers that had large research expenditures during the period 1984 through 1988 by allowing them to figure the credit using base figures from more recent years. For example, aerospace companies frequently had huge research expenditures during the late '80s. For them, that base period sometimes meant no credit in current years, even though research expenditures were relatively high and growing. Now that the alternative incremental credit election is possible, they may be able to benefit from the credit.

Basic Research Expenses Credit

California also generally conforms to the federal IRC Sec. 41 credit for *increasing* basic research expenses with, among others, the following major modifications:

- The research must be conducted in California;

- Basic research does not include that in the social sciences, arts or humanities;

- Basic research does not include that for the purpose of improving a commercial product if the improvements relate to style, taste, cosmetic, or seasonal design factors;

- Basic research does not include any expenditure paid or incurred for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore other mineral (including oil and gas); and

- The percentage for the basic research is 24 percent, rather than 20 percent for the federal credit.

Generally, basic research expenses include payments for basic research performed by “qualified organizations.” Such organizations include educational institutions, scientific research organizations, scientific tax-exempt organizations and certain grant organizations.

California’s statutes also contain many other modifications to the federal credit. Furthermore, the federal credit has substantial regulations that refer to yet more regulations. Finally, the federal regulations are currently proposed to be amended significantly. Thus, it’s imperative that the practitioner carefully examine all the statutes, regulations and forms, both at the federal and state level, before proceeding to claim these complex credits.

As for credit utilization, for the 1996 taxable and income years, 3,215 taxpayers claimed $289.9 million in California research credits and preliminary statistics show that 3,524 taxpayers claimed $327.6 million in research credits in 1997. California’s research credit is claimed on FTB Form 3523, *Research Credit.*

Comparison:	Enterprise Zones					
State	**Benefit Programs**	**Jobs Credits Description**	**C/B or C/F**	**Other Benefits**	**C/B or C/F**	**Other Limits**
		(Maximum Benefit)				
California	Enterprise Zones,	Based on 150% Min. Wage	C/F Indef.	Inc. Cr. For Sales Tax	C/F Indef.	Credits Limited to
	LA Revitalization (Exp.)	From 50% to 10%, Declining		$20M of Qual. Prop.		Tax Liab. From Zone
	Targeted Tax Areas	Over 5 Years				
	Mfg. Enhancement Areas					
	Local Area Mil. Base					
	Recovery Areas					
Alabama	State Industrial Dev. Auth.	N/A	N/A	N/A	N/A	N/A
	(Exp. 01/16/95)					
Alaska	N/A	N/A	N/A	N/A	N/A	N/A
Arizona	Enterprise Zone Employ.	3 years - (1) $500 ea.	5 yr. C/F	N/A	N/A	Sunset 07/01/01
		(2) $1000 ea., (3) $1500 ea.				
		($3000 ea. Max (Unless in				
		High Unemployment - $6000)				
Arkansas	Enterprise Zone Act of		9 yr. C/F	N/A	N/A	
	1993 (Manufacturers)					
Colorado	New Business Facility	$500ea./yr	5 yr. C/F	Invest. In Tech. InfraStruc.	10 yr. C/F	
	Employee Credit			(Internet in Rural Areas)		
				10% Credit/$100K Max.		
				Health Ins./ $200ea.	5 yr. C/F	
				Other Programs		
Connecticut	Enterprise Zone Credit	50% of Income Tax	10 yr.			
	(Manufacturers)	25% of Inc. Tax in Certain	(Use or Lose)			
		Areas				
Delaware	Investment/Employee	50% Tax Due for 5 Years	Use or Lose			Sunset (01/01/02)
	($200K/ 5 Employees)					

Comparison:	**Enterprise Zones**					
State	**Benefit Programs**	**Jobs Credits Description**	**C/B or C/F**	**Other Benefits**	**C/B or C/F**	**Other Limits**
		(Maximum Benefit)				
Florida	Enterprise Zone Jobs	$1800/ Employee	5 yr. C/F	Income Tax Credit for	5 yr. C/F	
	Credit			Property Taxes		
				(Either $50K or $25K		
				Limitation)		
Georgia	Credit for Employment	$500 to $2500/Employee	10 yr. C/F			
	In Less Developed	for 5 Years, Depending on				
	Areas	Classification of Area				
Hawaii	Enterprise Zone			80% Income Tax,	N/A	
				Declining to 20% Over		
				7 Years		
Idaho	N/A					
Illinois	ITC and Jobs	$500/Employee	5 yr.	.5% Investment in	5 yr.	
	(5 job minimum)			Qualified Prop.		
Indiana	EZ Employment Expense/	$1500 Max./Emmployee	3 yr. C/B	Cr. For .5% Interest	3 yr.	
	Loan Interest Credit		10 yr. C/F	Received on a Qual. Loan		
Iowa	Quality Jobs	6 % Qualified Wages	20 yr.	Investment Tax Credit		20 yr
	EZ Investment/Research			10% Real and Personal		
				Property - Research		
				Expenses 13% Increment		
Kansas	Qualified Buisness	$2,500/Employer	Indefinites	$1,000 ea.		Indef.
	Facility (Not Limited to			$100,000 of Investment		
	Distressed Area)					
Kentucky	Economic Development	$1,500/Employee	5 yr.	100% Income Attributable		
	Zone Credits	(Enterprise Zone)		to Project (15 years)		
Louisiana	Enterprise Zone	$2,500/Employee	10 yr.			
	Jobs Tax Credit					

Comparison:	Enterprise Zones					
State	**Benefit Programs**	**Jobs Credits Description**	**C/B or C/F**	**Other Benefits**	**C/B or C/F**	**Other Limits**
		(Maximum Benefit)				
Maine	Jobs and IT Credits	50% Tax Liability	7 yr	Investment Tax Credit		7 yr.
	(Min. $5M Investment			(Former Fed. Calculations)		
	100 New Jobs)					
Maryland	EZ - Jobs					
	Credit Creation	$1,500/Employee	3 yr. C/F	Property Tax	5 yr.	
	Focus Area	$3,000/Employee	5 yr. C/F	Credit Against Income Tax		
				Distressed Community	$10,000/	
				Start-up Costs	Employee	
Massachusetts				Economic Opportunity	10 yr.	
				Investment Credit		
				5% of the Depr. Prop.		
Michigan	Renaissance Zone Credit			100% Single Business	N/A	
				Tax Liability for 15 years		
				(Tax Phase-in Over the		
				Last Three Years		
Miinnesota	N/A					
Mississippi	JobsTax Credits	$2,000/Yr. for 5 years	5 yr. C.F			
Missouri	Enterprise Zone	$1,200/ Yr. / 10 years	N/A	ITC - 2% Facilities	N/A	
				(Average) for 10 years		
Montana	N/A					
Nebraska	Employment/Investment	Formula	8 yr. C/F	10% Investment	8 yr. C/F	
	Growth					
Nevada	N/A					

Comparison:	Enterprise Zones					
State	**Benefit Programs**	**Jobs Credits Description (Maximum Benefit)**	**C/B or C/F**	**Other Benefits**	**C/B or C/F**	**Other Limits**
New Hampshire	Job Creation Tax Credit (Repealed after July 1, 1997)					
New Jersey	Urban Economic	$1,500/Employee	1 yr. C/F	8% New Investment		1 yr. C/F
New Mexico	Rural Jobs Tax Credit	$1,000/Employee	(Transferable) 3 yr. C/F	EZ Facility Renovation Credit - $50,000 Max.	4 yr. C/F	
New York	Economic Development Zone Credit	Formula $1,500/Employee ($3,000/Employee after 2000)	C/F Indef.	Tax Benefit 10% of Real or Personal Depr. Prop.	C/F Indef.	
North Carolina	New/Expanded Business	(Formula)	5 yr. C/F	Machinery Credit (Formula)	5 yr. C/F	
North Dakota	N/A					
Ohio	N/A					
Oklahoma	Big Investments in EZ's	$2,000/Employee	9 yr. C/F	4% Depreciable	9 yr. C/F	
Oregon	N/A					
Pennsylvania	(Job Creation Credit)	$1,000/New Job	No			
Rhode Island	EZ Credit	$15,000/Employee	3 yr. C/F	Interest Income (10% Interest on Loans to Businesses in EZ's) $20,000/Yr.		
South Carolina	New Jobs Credit	$1,500-$4,500/Employee, Each Yr. For 5 years	15 yr. C/F			
South Dakota	N/A					

Comparison:	**Enterprise Zones**					
State	**Benefit Programs**	**Jobs Credits Description**	**C/B or C/F**	**Other Benefits**	**C/B or C/F**	**Other Limits**
		(Maximum Benefit)				
Tennessee	Enterprise Zone	$1,000/Employee	No	1.3% Industrial/Machinery	**2 yr. C/F**	
	Jobs Crdit	($100,00 Limit)				
		$2,000/Employee	15 yr. C/F			
Texas	N/A					
Utah	Enterprise Zone	$2,200/Employee	3 yr. C/F	10% of $250,000 Invest.	3 yr. C/F	
				and 5% of Next $1M		
Vermont	Development Zones	(Expired in 1996)				
Virginia				Enterprise Zone Credits		
				80% Tax Due for First Yr.;		
				60% Tax Due for Years		
				2 through 10		
				EZ Real Property		
				ITC - 30%		
				Zone Improvements		
Washington	N/A					
West Virginia	Super Credits	(Formula) Each yr. For				
		10 Years	12 yr. C/F			
Wisconsin	Development Zone Credits	(Formula)	15 yr.	ITC in Development Zone	15 yr. C/F	
				(2.9 % Cost of Depr. Prop.		
Wyoming	N/A					

Comparison:	Investment Tax Credits							
State	Benefit Programs	Amount of Credit	Qualifying Taxpayers	Qualifying Property	Location Restrictions	C/B - C/F	Recapture	Sunset
California	Manufacturer's Investment Credit	6% Qual. Invest.	Manuf./Computer Indus.	Subj. to Sales/Use Tax or Capitalized Labor	N/A	7 yr. C/F	Yes	1/1/01
Alaska	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Arizona	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Arkansas	Economic Development Tax Incentives ($5M and 100 Employees)	Negotiated	Manufacturers	Depr. Pers. Prop.		9 yr. C/F	Yes	
Colorado	Investment Credit	$1000/yr	No	Depr. Pers. Prop. (Section 38 Property)	N/A	3 yr. C/F	No	
	New Business Facilities	3% Investment	Enterprise Zone	Section 48 Property	Enterprise Zone			
Connecticut								
Delaware	New/Expanded Business	50% Tax Due for 10 years	Various Businesses	Real Estate and Equip.		No- Use or Lose	Reduction of Future Benefits	
Florida	Capital Investment Credit (New/Expanded Business with 100 New Jobs)	5% Eligible Costs for 20 years	High Impact Business	Real Estate and Equip.		Unlimited C/B & C/F		
Georgia	Manufacturer's ITC	50% Tax Liab.	Minimum $50K Invest. Mfg. and Telecommun.	Real Estate and Equip.				
Hawaii			N/A					
Idaho	ITC or Capital Investment Tax Credit	C/F and 3% Qualified Costs (Max. = 45% Tax Liability	N/A	48 Property	Idaho Property	7 yr.		

Comparison:	Investment Tax Credits							
State	**Benefit Programs**	**Amount of Credit**	**Qualifying Taxpayers**	**Qualifying Property**	**Location Restrictions**	**C/B - C/F**	**Recapture**	**Sunset**
Illinois	Credits for Investments	.5% of		New or Used Deprec. Real and Personal Property				
Indiana	N/A							
Iowa	N/A							
Kansas	Credit for Property Taxes Paid on Qualified Equip.	15%	Commercial/Industrial	Qualified Machinery and Equipment		refunded		
Kentucky	N/A							
Louisiana	N/A							
Maine	ITC	1%	Business	Machinery and Equipment	Maine Property	5 yr.		
Maryland	N/A							
Massachusetts	Investment Tax Credit	1% Cost of Depreciable Real/Personal Property	Manufacturers		Massachusetts			
Michigan	(New-begins in 2000)	Formula	All Tax Payers		Michigan	9 yr. C/F		
Minnesota	N/A							
Mississippi	N/A							
Missouri	New/Expanded Business	$150/Employee $150 ea. $100,000 in New Facility Inves.	Listed by SIC Codes		Missouri	N/A		

Comparison:	Investment Tax Credits							
State	**Benefit Programs**	**Amount of Credit**	**Qualifying Taxpayers**	**Qualifying Property**	**Location Restrictions**	**C/B - C/F**	**Recapture**	**Sunset**
Montana	N/A							
Nebraska	N/A							
Nevada	N/A							
New Hampshire	N/A							
New Jersey	New Jobs/Investment Tax Credits	Formula Based on New Jobs Created - Get Credit Over a 5 yr. Period			Yes	Refundable		
New Mexico	Investment Tax	Tax Rate x Value of Equip.	Manufacturers	New Personal Property	New Mexico	C/F Indef.		
New York	Investment Tax	5% of First $350M 4% of Excess	Manufacturing and Other Industry	Real/Personal Property That is Depr.	New York	15 yr. C/F		
North Carolina	N/A							
North Dakota	N/A							
Ohio	New Manufacturing Machinery/Equipment	7% Based on a Formula 1/7/Yr. For 7 years	Manufacturing	New Machinery/Equip.	Ohio	3 yr. C/F		
Oklahoma	Big Investments	$1000/Employee 2% Investment in Depr. Prop.		Depreciable Property	Oklahoma	9 yr. C/F		
Oregon	N/A							

Comparison:	**Investment Tax Credits**							
State	**Benefit Programs**	**Amount of Credit**	**Qualifying Taxpayers**	**Qualifying Property**	**Location Restrictions**	**C/B - C/F**	**Recapture**	**Sunset**
Pennsylvania	N/A							
Rhode Island		10% Basis	Manufacturing	Depreciable Property	Rhode Island	7 yr. C/F		
South Carolina	N/A							
South Dakota								
Tennessee	Industrial Machinery Tax Credit	1% Cost of Industrial Machinery		Industrial Machinery	Tennessee	15 yr.		
Texas	N/A							
Utah	Machinery/Equipment Credit	6% Purchase Price		Used for Research	Utah	14 yr.		
Vermont	N/A							
Virginia	N/A							
Washington	N/A							
West Virginia	N/A							
Wisconsin	N/A							
Wyoming	N/A							

Comparison:	**State R&D Credits**					
State	**R&D Credit Formula**	**Restricted to**	**State Modifications**	**Incremental**	**C/B or C/F**	**Other Information**
		State Expenses	**To Federal Cr. Rules**			
California	12% Qual. Bus. Expenses	Yes - Calif. Only	Yes	Elective Alternative	Unlimited C/F	
	20% Qual. Univ. Exp.					
Alaska	N/A	N/A	N/A	N/A	N/A	
Arizona	N/A	N/A	N/A	N/A	N/A	
Colorado	3% of Excess Qualified	Limited to Enterprise Zone	No		Unlimited C/F	
	Expenses					
Connecticut	25% Incremental Increase			Yes	no (with exceptions)	
	(includes grants)					
Delaware	(New - Effective 01/01/00)	Yes	4 year base period	yes	15 yr.	
	% of Overall State Cap of					
	$5M					
Florida	N/A	N/A	N/A	N/A	N/A	
Georgia	10% of Excess Over	Allocation	No	Yes	10 yr. C/F	
	Base Period					
Hawaii	(2000-2005)	Yes	Yes	Yes	C/F Indef.	
	2.5% of Qualified Research					
	and Excess Over Basic					
	Amount					
	2.9% of Basic Research			No		
	Expenses					
	(Alternate Formula)					
Idaho						
Illinois	(Sunset Attend of 2004)	Yes	No	yes	5 yr. C.F	
	6 1/2 of Increase Over					
	Base Period					

Comparison:	**State R&D Credits**					
State	**R&D Credit Formula**	**Restricted to State Expenses**	**State Modifications To Federal Cr. Rules**	**Incremental**	**C/B or C/F**	**Other Information**
Indiana	(Expired After 1996)					
Iowa	6.5% Increased Expenses	Apportioned Share	No	yes	Refundable or C/F	
Kansas	6.5% Increase Over 2 yr.	No	Yes	Yes	C/F Indefinite	
Kentucky	N/A					
Louisiana	N/A					
Maine	N/A					
Maryland	N/A					
Massachusetts	N/A					
Michigan (High Technology Credit)	Up to 100% Tax Liab. For 10 years	Yes	N/A	No	N/A	
Minnesota	N/A					
Mississippi	$500/New Job for 5 yr.	N/A	N/A	N/A	5 yr. C/F	
Missouri	6.5% Over Base Period	Yes	Yes	Yes	5 yr. C/F	
Montana	N/A					
Nebraska	N/A					
Nevada	N/A					
New Hampshire	N/A					

Comparison:	**State R&D Credits**					
State	**R&D Credit Formula**	**Restricted to State Expenses**	**State Modifications To Federal Cr. Rules**	**Incremental**	**C/B or C/F**	**Other Information**
New Jersey	10% Excess Over Base Period	Yes	Yes	Yes	7 yr. C/F	
	10% Basic Research Payment					
New Mexico	N/A					
New York	N/A					
North Carolina	N/A					
North Dakota	N/A					
Ohio	(New in 2002) 7% of Increase Over Base Period)	Yes	No	Yes	7 yr. C/F	
Oklahoma	N/A					
Oregon	5% of Increase Over Base Period $500,00 Cap	Yes	Yes	Yes	5 yr. C/F	
Pennsylvania	N/A					
Rhode Island	10% Cost of Elig. Research Property	Yes	N/A	No	7 yr. C/F	
South Carolina	N/A					
South Dakota	N/A					
Tennessee	N/A					
Texas	N/A					
Utah	6% in Excess of the Base Period	Yes	Yes	Yes	14 yr. C/F	

Comparison:	**State R&D Credits**					
State	**R&D Credit Formula**	**Restricted to**	**State Modifications**	**Incremental**	**C/B or C/F**	**Other Information**
		State Expenses	**To Federal Cr. Rules**			
Vermont	N/A					
Virginia	N/A					
Washington	N/A					
West Virginia	N/A					
Wisconsin	5% Increase Over	Yes	No	Yes		
	Base Period					
Wyoming	N/A					